

D.P.U. 92-217-A

Petition of Massachusetts Electric Company for approval by the Department of Public Utilities in accordance with 220 CMR §§ 9.00 of its application for cost recovery and preapproval of its 1994 and 1995 Demand Side Management Programs.

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ORDER ON JOINT MOTION FOR APPROVAL OF OFFER OF SETTLEMENTI. INTRODUCTION

On December 13, 1993, Massachusetts Electric Company ("MECo" or "Company"), along with the Attorney General of the Commonwealth, the Conservation Law Foundation, the Energy Consortium, Massachusetts Save James Bay and the Settlement Intervention Staff designated by the Department in this proceeding, submitted to the Department of Public Utilities ("Department") an Offer of Settlement ("Settlement") and a Joint Motion for Approval of Offer of Settlement ("Joint Motion"). The proposed Settlement is intended to resolve all matters at issue concerning the the Company's Demand Side Management ("DSM") activities for the years 1994 and 1995, including program budgets, program designs, and cost recovery.

The Settlement would supercede the Department-approved settlement that is currently in effect through December 31, 1994. Massachusetts Electric Company, D.P.U. 92-217 (1993). The Joint Motion contains a deadline of December 31, 1993, for the issuance of a Department decision on the Settlement.

II. THE PROPOSED SETTLEMENTA. Introduction

The Settlement addresses DSM programs in each customer sector. In most instances, the Settlement does not introduce significant modifications to the design or budget levels of the Company's existing programs approved in D.P.U. 92-217. The Settlement calls for DSM expenditures of approximately \$66.4 million in each of the calendar years 1994 and 1995 (Settlement § I.A.1). The Settlement states that, if the Company meets its budget and

savings targets, the Company would receive an after-tax incentive of approximately \$4.33 million for each of the calendar years 1994 and 1995, (id., Att. 1, Apps. A and B). The Settlement introduces some modifications to existing programs, as set forth below.

B. Program Design

The Settlement would implement two changes to programs addressing the residential sector. First, the Company would eliminate Home Energy Management from its DSM budget, and would transfer cost recovery for the program to New England Power Company (id. § I.C.1.b). Second, the Company would introduce a new program, the Super Efficient Refrigerator Program ("SERP") (id. § I.C.1.f).¹

The SERP program would be supported by a budget of \$268,000 in 1994, which would increase to \$795,000 in 1995 (Settlement, Att. 4, at 1-2). Documents submitted by the Company in support of the Joint Motion indicate that it reviewed the program and found the program to be cost effective with a benefit/cost ratio of 2.33 (id. Att. 6, at 1-2).

C. Program Financing Issues

1. Participant Contributions

According to the terms of the proposed Settlement, MECo would submit a proposal to

¹ The SERP Program was developed by a group of utilities around the country working with refrigerator manufacturers to develop prototype highly efficient, chloroflourocarbon-free appliances. Through a competitive process, Whirlpool was selected to manufacture the final models of refrigerators for distribution within the utilities' service territories. The Settlement would have Whirlpool implement the SERP program in MECo's service territory as an appliance rebate program. The Company would provide a rebate to Whirlpool for each refrigerator sold to compensate for the price difference between the Whirlpool model and less efficient models.

the Department, by February 15, 1994, by which the Company would require customer contributions from participants in the Small Commercial and Industrial Program. The Settlement also provides that a similar filing would be submitted simultaneously to the Rhode Island Public Utilities Commission (id. § I.C.1.e). The Settlement states that if the proposal is accepted by both agencies, the Company would require customer contributions beginning on June 15, 1994 (id.).

2. Financing Assistance

If approved, the Settlement would authorize the Company to assist customers in obtaining financing for the customers' portions of DSM program costs (id. § II.A). The Company would arrange financing through banks, financial institutions, or government agencies. The Company would seek to recover the costs associated with providing financing assistance through its Conservation Cost ("CC") rates along with its other DSM program costs (id.).

D. Monitoring and Evaluation

The Department notes that the Company currently provides estimates of DSM savings through a three stage process. First, the Company prepares initial year-end estimates of energy savings based on the number of DSM equipment measures installed and files them in a year end report. Second, the Company performs a first post-installation evaluation of energy savings at facilities where DSM measures were installed. Third, the Company performs a second post-installation evaluation when the first initial post-installation measurements are twenty percent higher or lower than initial year-end estimates.

The Settlement provides for the Company to perform a second post-installation

evaluation of 1994 savings for individual programs if (1) those program elements are substantially redesigned, (2) new programs are introduced, or (3) the monitoring results from the first post-installation evaluation differ by more than plus or minus ten percent from the preliminary estimates filed in the year end report (id. § IV).

E. Cost Recovery

The Settlement would permit the Company to "stabilize" its CC rate by implementing CC rates that would include projected program and bonus costs spread over the two-year period addressed by the Settlement (id. § II.B). The Company stated that by spreading costs over the two-year period, future CC adjustments would be less frequent (id.).

The proposed CC rates do not reflect a final determination of the Company's DSM bonus for its 1992 programs since those programs are currently under review by the Department (id. § I.A). Therefore, the Company anticipates adjusting its CC rates following the Department's final determination of the 1992 bonus amount (id.). The Settlement calls for the Company to adjust its CC rates with the Company's next quarterly fuel clause adjustment (i.e., on May 1, 1994).

III. ANALYSIS AND FINDINGS

In assessing the reasonableness of an offer of settlement, the Department must review the entire record as presented in the company's filing and other record evidence to ensure that the settlement is consistent with the public interest. Massachusetts Electric Company, D.P.U. 92-217, at 7 (1993); Boston Edison Company, D.P.U. 91-233, at 5 (1992); Western Massachusetts Electric Company, D.P.U. 92-13, at 7 (1992); Massachusetts Electric Company, D.P.U. 91-205, at 4 (1991).

As noted above, the Company is currently implementing DSM programs in accordance with a previous settlement approved in D.P.U. 92-217, which would remain in effect through the end of 1994 in the absence of the Settlement that is currently before the Department. Therefore, the Department must determine if the proposed Settlement, which would modify current programs and extend their implementation through the end of 1995, is consistent with the public interest.

In the residential sector, the Settlement would permit the Company to offer the SERP program to residential customers through rebates to the manufacturer. The Department notes that the SERP program would encourage the production and installation of highly efficient refrigerators, and that documents submitted by the Company indicate that the program is cost-effective. In previous Orders, the Department has encouraged electric companies to offer rebates for high-efficiency refrigerators. Western Massachusetts Electric Company, D.P.U. 89-260, at 72 (1990). Accordingly, the Department finds it appropriate for the Company to implement the SERP program.

The proposed Settlement would also implement a customer contribution for the Small Commercial and Industrial Program. Such action is consistent with Department policy as articulated in Massachusetts Electric Company, D.P.U. 92-217 (1993), and Western Massachusetts Electric Company, D.P.U. 92-13 (1992). Additionally, the Settlement would permit the Company to assist customers with the financing of customer contributions. The Department finds these program changes to be appropriate.

The proposed Settlement also contains provisions that would provide for an increase in DSM monitoring and evaluation activities and the stabilization of the Company's CC rates

by spreading costs across a two-year period. The Department finds these provisions of the Settlement to be appropriate. The proposed CC rates do not include a determination of the Company's 1992 bonus. Since the bonus may be addressed by the Department in a future proceeding, the fact that the Settlement does not address the Company's 1992 is not problematic.

The Department concludes that, in a number of areas, the proposed Settlement would improve the Company's DSM programs that are currently in effect through the settlement approved by the Department in D.P.U. 92-217. The Department also notes that the Settlement represents an agreement among a broad range of interests representing consumer and environmental concerns, as well as the interests of industrial customers. Based on our review of the proposed Settlement, including information presented regarding program design, cost recovery, cost effectiveness, and evaluation and monitoring, the Department finds the Settlement to be consistent with the public interest. In accordance with the terms of the Settlement, our acceptance of the Settlement does not constitute a determination as to the merits of any allegations, contentions, or arguments made in this investigation.

Notwithstanding the terms of the Settlement that the Department hereby approves, we note that the Company has an ongoing responsibility to manage prudently its DSM programs in the light of circumstances existing and knowledge available at any particular time, and to make any further adjustments to those programs that would be consistent with the Company's obligation to provide least-cost service to its customers.

Viewing the Settlement at a more general level, we question whether it is necessary or even appropriate for the Department to review and preapprove modifications (e.g., program designs and budget levels) to existing DSM programs that have been preapproved

by the Department. In the future, we intend to consider whether MECo or any electric company should be given back the responsibility of prudently managing its DSM programs subject to later review by the Department. It is the task of a privately owned and operated utility to make, and take responsibility for, its business decisions. The Department's task is to provide a structure for those decisions, and to determine whether appropriate actions have been taken on behalf of ratepayers, and are in conformance with public policy. Therefore, electric companies and the other parties that may intervene in future proceedings addressing electric company DSM programs are hereby put on notice that the Department intends to consider this matter and how CC rates would be implemented within this context.

IV. ORDER

Accordingly, after due consideration, it is

ORDERED: That the Joint Motion for Approval of Offer of Settlement, filed by Massachusetts Electric Company, the Conservation Law Foundation of New England, Inc., the Attorney General, the Energy Consortium, Massachusetts Save James Bay, Inc., and the Settlement Intervention Staff, be and hearby is approved.

By Order of the Department,